Nexia Australia

2022 Federal Budget Announcement

At the time of last year's Budget, allowing ourselves the indulgence of thinking about a post-pandemic world was perhaps a little premature. But maybe this time we really can.

The forecast deficit for the 2022-23 year is $78 billion, and the current year's deficit is expected to come in at $79 billion. These are significantly lower than forecast in the two previous Budgets.

Although some direct support measures continue, most have ceased. However, deficits and debt will be with us for many years, but that is the price of averting what might have been far worse.

We set out a summary of the key measures announced, and what they mean for you.

Personal tax

Low-and-Middle-Income Tax Offset increased by $420 to $1,500 for the 2021-22 year.

Small business

Cashflow support and red tape relief.

Support for apprentices

Extended wage support until 30 June 2022 for employing apprentices.

Infrastructure spending

Additional $10 billion funding for infrastructure projects in all states and territories.

Primary producers

Proceeds from sales of Australian Carbon Credit Units can be contributed to a Farm Management Deposit.

Cost of living pressures

Temporary halving of fuel excise tax, reduced by 22.1 cent/litre.

Employee share schemes

Greater access, reduced red tape and reporting requirements.

Small business training boost

120% deduction for eligible training expenditure by businesses with group-wide turnover below $50 million.

Small business tech boost

120% deduction for investing in certain digital adoption expenditure by businesses with group-wide turnover below $50 million.

Patent box

Expanded scope for special 17% company tax rate.

COVID tests

Where work related, deductible and no FBT.

ATO taskforce

Additional funding for audits of multinationals, large public and private groups, trusts, and high-wealth individuals.

Personal tax

1 Low-and-Middle-Income Tax Offset

Background

The Low-and-Middle-Income Tax Offset (LMITO) is a non-refundable tax rebate which, as the name suggests, is available to low-to-middle income earners. This rebate reduces tax payable but cannot result in a tax refund.

The rebate was originally introduced in the 2019 Budget as a temporary tax relief measure, extending to the year ending 30 June 2022, for individuals whose taxable income for the income year is less than $126,000.

In last year's Budget the Government announced that the maximum rebate available in the income year ending 30 June 2022 would be $1,080.

Announcement

The Government has announced that the maximum amount of the rebate will increase from $1,080 to $1,500 for individuals and $3,000 for couples for the income year ending 30 June 2022. The purpose of the LMITO is to reduce cost of living increases.

All LMITO recipients will be entitled to the full $420 increase. Individuals earning less than $25,000 will not require the full additional rebate to pay no tax. Individuals with taxable incomes between $48,000 to $90,000 will receive the maximum rebate of $1,500. For individuals with taxable incomes between $90,001 and $126,000, the rebate tapers to $420 for individuals with a taxable income of $126,000.

What this means for you

Eligible individuals will now be entitled to a rebate of up to $1,500 upon lodgement of their individual income tax returns for the year ending 30 June 2022.

In last year's Budget, the LMITO was extended for a year, and the 2021-22 income year was scheduled to be last year of the LMITO. As no further extension was announced, the LMITO will cease after this current income year. However, the amount of the LMITO in its final year has been increased as set out above.

2 Cost of living – temporary fuel excise reduction

Background

Currently, the Government imposes a levy of 44.2 cents per litre on petrol and diesel fuels. In addition, the Government collects GST on fuel sales, calculated as a further 10 per cent add-on in the price.

Recent increases in fuel prices have been attributed to Russia's invasion of Ukraine, resulting in supply constraints.

Announcement

The rate of the levy on petrol and diesel fuels will be halved from 30 March 2022 to 28 September 2022.

The excise and excise-equivalent customs duty rates for all other fuel and petroleum based products, except aviation fuels, will also be reduced by 50 per cent for the same period.

What this means for you

In simple terms, bowser prices should be 22.1 cents per litre less than they otherwise would be, plus an additional reduction in GST.

For example, a litre of petrol that cost $2.20 before this change (including 44.2 cents of excise levy and 20 cents in GST) should theoretically fall to $1.96 (including 22.1 cents of excise levy and 17.79 cents in GST).

The Australian Competition and Consumer Commission will play their role in ensuring the impact of these changes are passed on to the bowser price.

3 Increasing the Medicare Levy Low-Income Thresholds

Background

A 2% Medicare levy is payable on an individual's taxable income in addition to the tax they pay on their taxable income. The Medicare levy is reduced where the individual's taxable income is below certain taxable income thresholds.

Announcement

From 1 July 2021, the Government will increase the Medicare levy low-income thresholds for the below listed taxpayers. The changes reflect movements in the consumer price index.

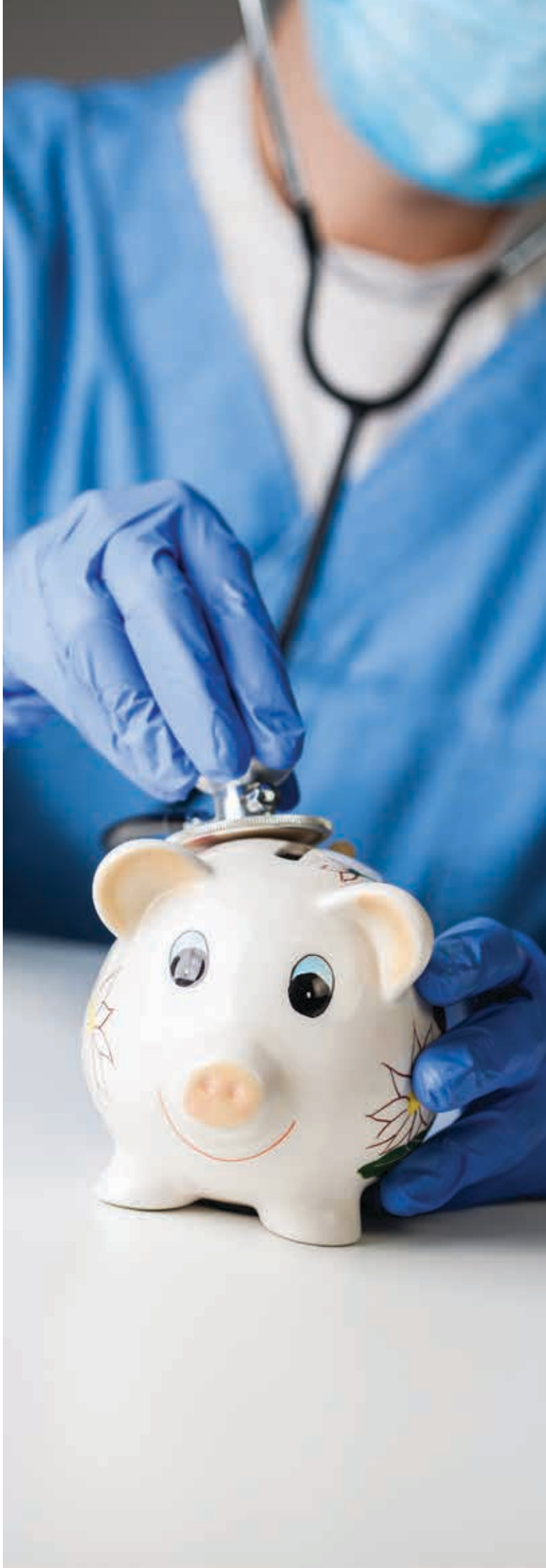
	Medicare Levy Low Income Thresholds	
Low Income Taxpayer	**2020/21**	**2021/22**
Singles	$23,226	$23,365
Families *	$39,167	$39,402
Single Seniors and Pensioners	$36,705	$36,925
Families for Seniors and Pensioners	$51,094	$51,401

* The family income threshold will be increased by a further $3,619 for each dependent child or student compared to the previous amount of $3,597.

What this means for you

Low-income taxpayers will continue to be exempt from paying the Medicare levy.

Eligibility for the threshold applies when the taxpayer has lodged their individual income tax return for the year ending 30 June 2022.



Businesses

1 Cashflow support and red tape reduction for small business

Background

Businesses are required to make a number of payments throughout the year in relation to different types of tax obligations. These present ongoing cashflow and administrative challenges and costs for business.

Announcement

A number of changes are intended to ease the cashflow burden for small business in complying with these obligations, and improve the use of technology for a more efficient administration. These include:

- Decrease the PAYG instalment uplift rate from 10% to 2%, effective from 1 July 2022.
- Implement new systems from 1 January 2024 that will enable automated calculation of PAYG instalments based on business performance.
- Share Single Touch Payroll (STP) data with state and territory governments, enabling pre-filling of payroll tax returns.
- Automated reporting drawn from activity statements to displace the annual Taxable Annual Payment Report (TPAR). This affects businesses in the construction, cleaning, road freight and courier services, information technology, and security, investigation and surveillance industries.
- From 1 July 2023, manufacturers, importers and distributors in the alcohol and fuel sectors with turnover below $50 million can lodge and pay excise and equivalent customs duty on a quarterly basis, instead of monthly or weekly.

What this means for you

Any improved use of technology and information sharing to reduce or eliminate duplication, or more seamlessly complete compliance obligations, is to be welcomed.

The change arising from reducing the PAYG instalment uplift rate is more limited, as tax instalments can be varied down in any case. This might also leave business owners with a deferred final tax payment. As always, managing cashflow, of which income tax obligations are a significant component, is a constant challenge for any business.

2 Extended wage subsidy for apprentices

Background

The government's Boosting Apprenticeship Commencement (BAC) program provided a wage subsidy for business hiring eligible apprentices during the pandemic. It was due to end on 31 March 2022.

Announcement

Any business receiving the BAC subsidy will be eligible for extended support through the Completing Apprenticeships Commencements (CAC) subsidy. This will continue until 30 June 2022. These subsidy programs have provided the following subsidies:

- 50 per cent of the apprentice's wages in the first year, capped at a maximum payment value of $7,000 per quarter per apprentice,
- 10 per cent of the apprentice's wages in the second year, capped at a maximum payment value of $1,500 per quarter per apprentice, and
- 5 per cent of the apprentice's wages in the third year, capped at a maximum payment value of $750 per quarter apprentice.

What this means for you

Irrespective of any subsidy, there must be a business case to take on a new employee. However, the point of temporarily subsidising the cost of employment during the pandemic is to tip a business with a borderline business case into hiring a new apprentice earlier.

3 120% deduction for skills and training expenditure

Background

With its continued theme of backing small businesses to invest and grow, the government is introducing a new "Skills and Training Boost" to encourage employers to upskill existing employees and train new employees.

Announcement

Businesses with group-wide turnover below $50 million will be entitled to a bonus 20% tax deduction for expenditure incurred on external training courses provided to their employees.

To qualify, the training courses must be:

- provided to employees in Australia or online
- delivered by a training provider registered in Australia
- expenditure that is incurred from 29 March 2022 to 30 June 2024

There will be some exclusions such as in-house or on-the-job training. It will also exclude training courses for persons other than employees. For eligible expenditure incurred up to 30 June 2022, the 20 per cent boost deduction component will deductible in the 2022-23 income year. The 20 per cent boost for eligible expenditure incurred in the 2022-23 and 2023-24 income years will be deductible in the year in which the expenditure is incurred.

What this means for you

As a small business, investments made in the upskilling of your employees may entitle you to an additional 20% tax deduction in respect of eligible expenditure incurred.

Expenditure incurred	Income tax return to claim 20% deduction boost		
	2021-22	2022-23	2023-24
7:30pm AEDT 29 March 2022 to 30 June 2022		✓	
1 July 2022 to 30 June 2023		✓	
1 July 2023 to 30 June 2024			✓

There is no limit on the amount of eligible expenditure.

The following example illustrates the potential tax benefits of this incentive.

Example

John owns an IT company that has an annual turnover of $40 million and 150 employees. To upskill its management team the company pays a registered training provider to run management and leadership courses throughout the 2022-23 financial year costing $400,000 (exclusive of GST).

Under the new Skills and Training Boost, the IT company can claim a bonus tax deduction of $80,000 ($400,000 x 20%) in its 2022-23 tax return, thereby reducing its tax liability by $20,000 (25% company tax rate).

There will inevitably be administrative costs to comply with the necessary record-keeping.

4 120% deduction for technology investment expenditure

Background

In recent years, the Government has encouraged investment and supported businesses through its instant asset write-off and temporary full expensing incentives for depreciating assets. These measures, albeit simply a timing difference, provide an incentive for many businesses to bring forward their business investments.

Announcement

The Government is introducing a more targeted incentive to support digital adoption by small businesses. The boost will apply to eligible expenditure incurred from 7.30pm AEDT on 29 March 2022 until 30 June 2023.

Businesses with group-wide turnover below $50 million will be able to deduct an additional 20 per cent of the cost of business expenses and depreciating assets that support their digital adoption. The additional deduction will be subject to an eligible expenditure cap of $100,000.

The technology investment boost will support digital investments such as cloud computing, cyber security systems, web page design, e-invoicing software and portable payment devices.

For eligible expenditure incurred up to 30 June 2022, the 20 per cent boost deduction component will deductible in the 2022-23 income year. The 20 per cent boost for eligible expenditure incurred in the 2022-23 income year will be deductible in that same year.

What this means for you

With no further extension to the temporary full expensing of eligible depreciable assets, businesses with group-wide turnover below $5 billion will be able to deduct the full cost of eligible assets acquired from 7.30pm AEDT on 6 October 2020 until 30 June 2023 as per existing laws.

But now, in addition to the above, businesses with group-wide turnover below $50 million will be able to deduct this bonus 20 per cent of eligible expenditure.

The 20 per cent boost is claimable as follows:

Expenditure incurred	Income tax return to claim 20% deduction boost	
	2021-22	2022-23
7:30pm AEDT 29 March 2022 to 30 June 2022		✓
1 July 2022 to 30 June 2023		✓

For example, if eligible expenditure of $100,000 is incurred by 30 June 2022, and a further $100,000 by 30 June 2023, a total bonus deduction of $40,000 ($200,000 x 20%) would be claimable in the 2022-23 income year, reducing a company's tax liability by $10,000 (25% company tax rate).

There will inevitably be administrative costs to comply with the necessary record-keeping.

5 Export Market Development Grant & Regional Accelerator Program

Background

The Export Market Development Grant (EMDG) is a financial assistance program available for businesses exporting products or services overseas and for promoters of inbound tourism and events held in Australia.

The EMDG encourages small to medium businesses to increase their international marketing and promotion expenditure by providing a maximum grant of 50% of export promotion expenses.

Further, the Government wishes to make Australia more self-reliant and improve infrastructure, manufacturing, industry development, research and development and education in regional areas.

Announcement

Following the opening of Australia's international borders, the Government will supply a further $80 million in EMDG to assist businesses to re-establish their presence in overseas markets and be better able to export their products and services.

The Government is also establishing the Regional Accelerator Program (RAP), at a cost of $2 billion, to drive economic growth and productivity in regional areas. The 5-year program will commence on 1 July 2022 and will fund programs targeted at improving infrastructure, manufacturing, industry development, research and development and education in regional areas.

What this means for you

Businesses intending to market their goods and/or services overseas should consider their eligibility for the EMDG. Nexia can advise on EMDG and prepare EMDG applications, which are due by 30 November 2022, for the year ending 30 June 2022.

Nexia can also assist regional businesses access funding under the RAP.

6 Employee Share Schemes – greater access, less red tape

Background

Currently, if an entity makes an employee share scheme (ESS) offer to its employees, significant reporting and disclosure obligations are imposed under the Corporations Act unless an exemption applies.

If unlisted entities wish to claim relief from their disclosure obligations in respect of an ESS, their offers to employees must not exceed $5,000 per participant per year.

Additionally, relief from disclosure requirements for offers under an ESS, for both listed and unlisted entities, is limited in relation to contractors who work a pro-rata equivalent of 40% of a full-time position.

Announcement

The Government will now allow unlisted entities to claim relief from disclosure requirements for offers under an ESS where they make offers of up to:

- $30,000 per participant per year, with unexercised options accruing for up to 5 years in addition to 70% of dividend and cash bonuses; or
- any amount if the offer allows participants to immediately take advantage of a planned sale or listing of a company.

The Government will also remove the restriction on relief for offers under an ESS to contractors.

What this means for you

This will increase the availability of relief for employers in relation to the reporting and disclosure obligations for an ESS and reduce the corresponding compliance burden. Employees will benefit from being able to share in business growth and profits by participating in an ESS.

7 COVID 19 tests: Tax deductible, no FBT

Background

Some employers have mandated that employees are required to undertake COVID-19 tests prior to attending the workplace, to mitigate transmission risks for the broader workforce.

The ATO has provided previous guidance confirming COVID-19 tests would not attract Fringe Benefits Tax (FBT) if:

- The testing is carried out by a legally qualified medical practitioner or nurse, and the testing is available to all employees; or
- It would satisfy the minor benefit exemption where it is provided infrequently and irregular and the cumulative value of the tests provided to an employee is less than $300; or
- Where the test is required for an employee travelling on work due to border restrictions.

However, where employers are requiring employees to test regularly, this may not fall into the above scenarios and potentially could be subject to FBT.

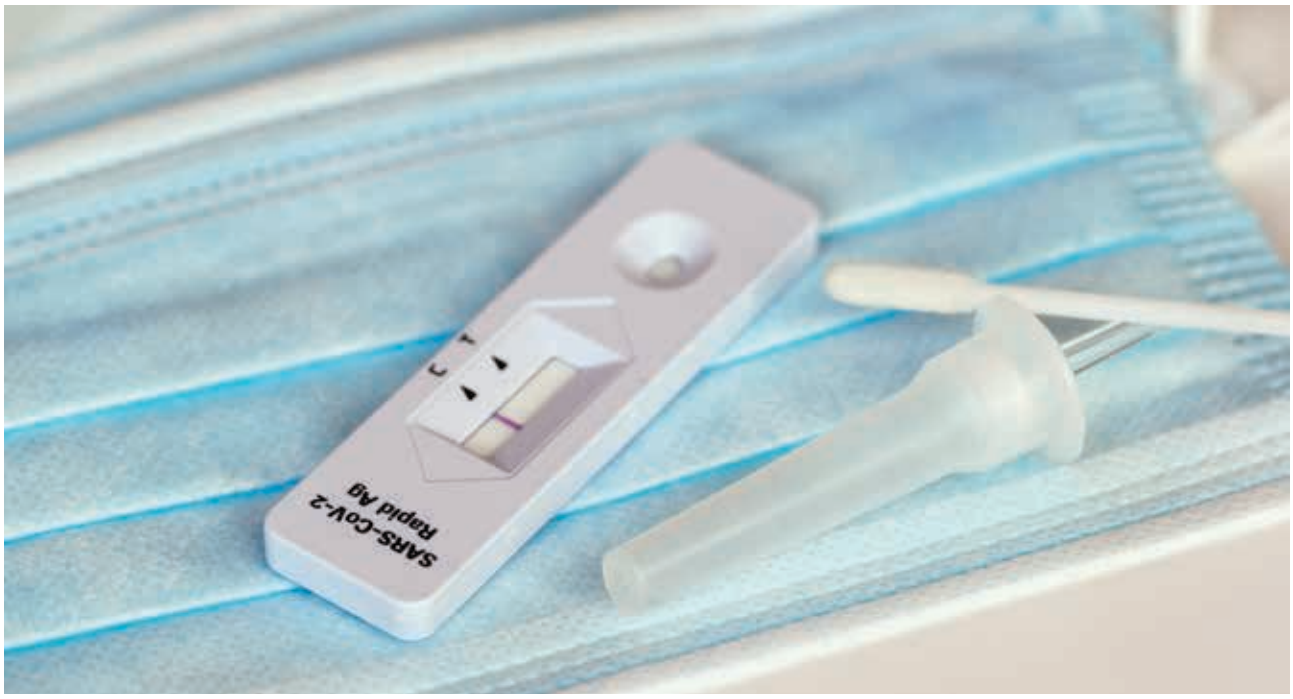
Announcement

The costs of taking a COVID-19 test (including Polymerase Chain Reaction and Rapid Antigen Tests) to attend a place of work will be tax deductible for individuals from 1 July 2021.

FBT will also not apply where employers provide COVID-19 tests to employees for work related purposes from 1 April 2021.

What this means for you

The change will take effect retrospectively for employers from 1 April 2021 for FBT, and 1 July 2021 for employees. It is proposed to be in place permanently and to apply when employees are required to attend the workplace or have the option to work remotely.



8 Primary producers – farm management deposits and carbon credits

Background

Farm Management Deposits (FMD) allow primary producers to smooth out their tax liabilities across multiple years by making tax deductible contributions in high-income years, and assessable withdrawals in low-income years.

Currently, proceeds from selling Australian Carbon Credit Units (ACCUs) are treated as non-primary production income and are generally ineligible for contribution to a FMD. Also, ACCU holders are taxed based on changes in the value of their ACCUs each year, which can result in tax liabilities prior to sale.

Announcement

From 1 July 2022, the Government will allow the proceeds from the sale of ACCUs and biodiversity certificates generated from on-farm activities to be treated as primary production income. Accordingly, the proceeds can be contributed to a FMD.

The Government will also change the taxing point of ACCUs for eligible primary producers to the year when they are sold.

What this means for you

This change enhances primary producers' ability to manage their tax liabilities, and aligns income tax liabilities on ACCUs with when they are actually sold.

9 ATO Tax Avoidance Taskforce additional funding

Background

The Government established the ATO's Tax Avoidance Taskforce in 2016 to undertake reviews and audits of multinationals, large public and private groups, trusts, and high wealth individuals. The Taskforce's programs include:

- Justified Trust;
- Medium & Emerging Private Groups;
- Top 500 private groups tax performance program;
- Top 1000 public groups performance program;
- High risk trusts;
- Medium & Emerging Private Groups.

The Taskforce has recovered $12.7 billion in taxes from 1 July 2016 to 30 June 2021.

Announcement

The Taskforce will be extended for a further two years, to 30 June 2025, at a cost of $652.6 million. The Taskforce is expected to collect at least $2.1 billion in otherwise unpaid taxes.

What this means for you

The ATO will continue to run its targeted programs to review and audit high wealth individuals and larger corporate groups, reviewing compliance with all of their tax obligations. These reviews and audits also involve an assessment of your attitude to tax risk management, which governs the frequency of follow-up reviews and audits.

Industry

1 Expansion of patent box tax concessions

Background

Previously, profits from patents were taxed in the same way as any other income; 30% for larger companies and 25% for smaller companies. In last year's Budget, the Government announced that a concessional rate of 17% would apply to income from patents that qualified to be placed in a "patent box" from 1 July 2022 (the relevant legislation is currently before Parliament).

However, based on last year's Budget announcement, only medical and biotech patents were eligible for the patent box, although the announcement also said that the Government would consult on allowing clean energy patents also to be included.

Announcement

This year's Budget expanded the application of the patent box regime for the existing category of medical and biotech patents. Such patents granted or issued after 11 May 2021 will now be eligible for the regime. Standard patents granted by IP Australia, utility patents issued by the United States Patent and Trademark Office (USPTO), and European patents granted under the European Patent Convention (EPC) will now all be eligible, provided the R&D took place in Australia.

This year's Budget also announced that two additional categories of patent would potentially be eligible to be included in the patent box, for patents granted or issued after 29 March 2022 for income years starting on or after 1 July 2023.

Following last year's announcement that the Government would consult on allowing clean energy patents, patents relating to low emissions technology, and expanded scope of technologies will be eligible. These will include the 140 technology areas listed in the Government's 2020 Technology and Investment Roadmap Discussion Paper or included as priority technologies in the Government's 2021 and future annual Low Emissions Technology Statements.

Agricultural sector innovation patents will now also be within scope. Specifically, eligible patents will be those linked to agricultural and veterinary (agvet) chemical products listed on the Australian Pesticides and Veterinary Medicines Authority (APVMA), PubCRIS (Public Chemicals Registration Information System) register, or eligible Plant Breeder's Rights (PBRs).

What this means for you

For the existing categories of medical and biotech patents, patents now granted or issued by a broader range of issuers after 11 May 2021 will now be eligible.

Businesses engaged in low emissions and agricultural sector innovation should consider if they hold patents that may be eligible for the patent box concessions after the relevant increases in the scope of the patent box regime announced in this year's Budget.

The reduction in the rate of tax on income from such patents will allow companies to reinvest more into valuable research.

2 Infrastructure spending

Background

With a continued focus on economic recovery from the pandemic, the Government announced further spending on infrastructure projects for every state and territory.

Announcement

The Government's national rolling 10 year infrastructure investment pipeline will increase from $110 billion to over $120 billion. A sample of projects include:

- $1 billion for the Sydney to Newcastle (Tuggerah to Wyong) faster rail upgrade
- $1.2 billion for Victoria's Beveridge Interstate Freight Terminal
- $1.6 billion for the Brisbane to the Sunshine Coast (Beerwah Maroochydore) rail extension
- $200 million for South Australia's Marion Road – Anzac Highway to Cross Road
- $140 million for WA Regional Road Safety Upgrades
- $132 million for NT's Central Australian Tourism Roads
- $46.7 million for the ACT's Athllon Drive Duplication
- $336 million for the Tasmanian Roads Package

What this means for you

Businesses contracting in and servicing the associated industries may have increased opportunities to earn additional revenue.

Superannuation

1 Temporary reduction in superannuation minimum drawdown rates extended

Background

When a self-funded retiree commences a pension, they are required to withdraw a minimum amount annually based on their prior year member balance.

Announcement

To ensure stability in superannuation for self-funded retirees, the Government has announced an extension of the current 50 per cent temporary reduced minimum pension amount for a further year to 30 June 2023.

This will apply to account-based pensions (including transition to retirement income streams), and market-linked pensions. It will not apply to defined benefit income streams.

What this means for you

The 50 per cent reduction of the minimum drawdown requirements for account-based pensions and market-linked pensions will continue to 30 June 2023. The relevant rates are below.

Age	Default minimum drawdown rates (percentage)	Reduced rates by 50% for the 2019–20 to 2022-23 income years (percentage)
Under 65	4	2
65-74	5	2.5
75-79	6	3
80-84	7	3.5
85-89	9	4.5
90-94	11	5.5
95 or more	14	7

International

1 Reduced tax for foreign resident workers participating in certain programs

Background

The Budget announcements referred to proposed new laws to reduce the tax on certain income earned by foreign resident workers participating in the Australian Agriculture Worker Program or the Pacific Australia Labour Mobility scheme.

Announcement

The proposed laws will, after 1 March 2022, reduce the effective tax rate on certain income earned by foreign resident workers participating in the Australian Agriculture Worker Program or the Pacific Australia Labour Mobility scheme from 32.5 per cent to 15 per cent. This ensures that such workers pay tax at an appropriate rate on program income, consistent with similar migration programs.

What this means for you

Both foreign resident workers in the relevant programs and any organisation involved in assisting such workers and/or their employers should be aware this this change will increase the take-home pay of such workers. The intent is to increase the number of workers in agriculture and make Australia an attractive place to work.

Final word

Two years into the pandemic, we are emerging on the other side, but there is still a long way to go.

Fiscal policy having done its job over the last two years, we ought to be looking to long-term structural Budget repair. However, coming on the eve of an election being called, the absence of any real attempt at Budget repair is perhaps unsurprising.

With this year's election due by 21 May (assuming will be for both Houses of Parliament), there is uncertainty over the implementation of many of the Budget's measures, as a change in government will likely see different direction being taken. In fact, the Opposition has committed to another Budget later this year, should they win office.

There is some relief in the Government's finances having turned out not as bad at that predicted in the delayed October 2020 Budget. However, it is hoped that no matter who's sitting on the Treasury benches after the election, responsible long-term Budget repair will be on the table.

Talk to your trusted Nexia advisor about what any of the Budget announcements mean for you or your business.

Nexia Australia

Contact us

For further information or to discuss how Nexia Australia can assist your organisation, please contact a local Nexia Advisor below.

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